NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES
COMMENTS ON THE DRAFT ERIP, DATED 1/18/02
OF THE CALIFORNIA POWER AUTHORITY

The National Association of Energy Service Companies (NAESCO) appreciates the opportunity to submit these comments on the Draft Energy Resource Investment Plan (ERIP), dated January 18, 2002, of the California Power Authority (CPA).

NAESCO is a trade association of energy service companies (ESCOs) and their trade allies, including utilities and manufacturing companies. NAESCO's current membership of about 130 organizations includes firms involved in the design, manufacture, financing and installation of energy efficiency equipment and services in the private and public sectors. NAESCO numbers among its members some of the most prominent companies in the world in the energy control equipment business, including Honeywell, Johnson Controls, ABB, Siemens, TAC Americas and Invensys. Our members also include many of the nation's largest utilities: Pacific Gas & Electric, Southern California Edison, New York Power Authority, Sempra, and TU Electric & Gas. In addition, ESCO members include affiliates of Xcel, ConEdison, Exelon, Niagara Mohawk, FirstEnergy, Northeast Utilities, Equitable Resources, CMS Energy, Reliant, Alliant, TECO Energy and Southern Company. Prominent national and regional independent members include Custom Energy, Onsite Energy, TRC eNERGYsolve, Conservation Services Group, AMERESCO, Emcor, UCONS and Energy Systems Group. ESCOs have been delivering services to large and small customers in California for twenty years.

NAESCO applauds the ERIP's emphasis on energy efficiency and distributed resources, and would like to offer a few suggestions, from the perspective of people who have been delivering services to customers, about how the CPA might make its proposed programs more effective. Our comments primarily focus on the CPA initiative called "Greening Public Buildings", with related comments on the proposed demand response and distributed generation initiatives.

Efficiency First

The ERIP describes an ambitious plan to assist public buildings throughout California, by making them more energy efficient, and by supplying a significant amount of their energy use through distributed generation. NAESCO urges the adoption of a simple strategy in this ambitious program: Efficiency First. Before the CPA provides funding for a distributed generation system for a public building, it should require that the building has performed, or is simultaneously performing, a comprehensive energy efficiency retrofit project. There are two reasons for an Efficiency First strategy.

- A comprehensive efficiency project usually significantly reduces the energy supply requirements of a public building. Reductions of 25% to 30% are common; some projects yield 50% reductions. Efficiency First means that the size and cost of the distributed generation project can be proportionately reduced, thus leveraging the resources of the CPA to include more public buildings. This is even more important if the distributed generation project is CHP, as the costs of CHP projects are significant and reducing the size of the projects through initial energy efficiency retrofits can be a more cost effective approach.

- Energy efficiency projects utilize a range of commercially available technologies whose consumption reduction impact is well established. Efficiency First assures that the demand reduction objectives will in fact be met, and not be seen as an unnecessarily complicated add-on to a distributed generation project. NAESCO wants to be clearly understood as supporting the widespread use of distributed generation technologies, which have exciting applications and enormous potential. However, NAESCO believes that distributed generation should be part of a comprehensive approach, and does not want to see the emphasis on the distributed generation thoroughbred push aside the energy efficiency workhorse.

Streamline the Program

Providing energy efficiency and distributed resource projects to public buildings is a long, hard process. Comprehensive projects at major facilities typically take 12 to 18 months to develop and another year or more to construct. Programs aimed at providing improvements to public buildings, such as the current DGS program for state buildings, have taken years of preliminary work before the first projects go into development. NAESCO urges that the CPA build on the foundation of existing programs, and not start from scratch to invent new programs. Such invention will only confuse the already cautious public building managers and slow down the greening of public buildings. NAESCO strongly believes that the CPA should focus instead on breaking through the institutional and funding barriers that have brought the current programs to a standstill. NAESCO suggests that there are two areas where the CPA can make an immediate major impact on state buildings, and use this experience to build a program for all public buildings in California.

- The CPA should provide funding for investment grade energy audits for the 100+ facilities that are currently in the queue in the DGS state buildings performance contract programs. An initial set of audits was funded with an appropriation from SBx5, but that funding has been exhausted, so no additional projects can move forward. DGS has selected contractors, but lacks the funding to launch the projects. There is a precedent in New York for this type of funding. The New York Power Authority (NYPA) underwrites investment grade audits for public facilities, deferring the cost. If the project goes forward, the audit cost is built into the project cost. If the project does not go forward, NYPA recovers the audit costs from its general overhead adder for all projects.

- The CPA should concentrate on expediting the project funding process. A few projects have been funded with funds from SBx5, but again, those funds are exhausted. Hundreds of pending projects will require state bond funding, and the funding approval process is totally bogged down. The Legislative Analyst's

Office (LAO) has had some projects under review for six months, and has yet to send a project to the Public Works Board for funding. Greening Public Buildings will require a streamlined project approval process, perhaps approving credit-enhanced portfolios of building projects rather than individual projects, if the volume of projects that CPA envisions is to be built.

More Dollars in 2002

If the CPA gets an efficient project funding process in place, it will need to commit more funds in 2002 than the $45 million that the ERIP projects. As noted above, there are already hundreds of projects in the DGS state buildings performance-contracting program. This one program might be able to absorb several times the $45 million in the ERIP. Other programs for other types of buildings can be expected to require additional funding commitments.

Look at Total Project Efficiency

NAESCO understands the ERIP emphasis on a new generation of clean distributed generation technologies. However, the CPA must bear in mind the current state of the industry and the reality that the energy efficiency of the public building stock, the economics and reliability of the electricity system, and the overall emissions load will all benefit significantly from properly designed, comprehensive projects that integrate energy efficiency and cogeneration or CHP applications of natural gas fired reciprocating engines and turbines. NAESCO believes that the CPA should adopt a rigorous comprehensive project performance efficiency standard, which encourages all cost-effective retrofits and the best applicable distributed generation technology for each project.

Launch the Demand Response Program Now

NAESCO has spent the last two years, under contract to the US Department of Energy, studying the initial Demand Response programs of the four US ISOs (California, New York, New England and PJM). Both NAESCO and the US DOE believe that NAESCO members and other ESCOs should be major participants in Demand Response programs, because they have projects in thousands of major facilities. Unfortunately, the programs fielded by the ISOs to date have not attracted ESCO participation because they fail to take account of how market actors actually behave. If the CPA is serious about fielding a 1000 MW Demand Response in California next summer, it must plan to have the program submitted to the FERC in 30-45 days. FERC will then take 60 days to approve the program, which will leave only a month to implement the program before the start of the summer season. An intense planning effort involving all stakeholders has to start immediately. NAESCO urges the CPA not to attempt to design a Demand Response program on its own, without a stakeholder process. The history of the last two summers has shown that such program designs have very limited chances of success.

Don't Compete with the Private Sector

NAESCO believes that the CPA must carefully delineate its role in the marketplace. The CPA's proposed program is very ambitious, and the CPA's program design may not fully account for the complexities of the market, particularly the time and effort required to influence the private marketplace of power plant developers, distributed generation developers and energy service companies. There is a real danger that the CPA, out of frustration, will try to move beyond its role of project financier into the role of direct project developer. The draft ERIP has several places that refer to the CPA's role as a broker, and the CPA seems to be exploring a role as a kind of technology procurement center.

We urge the CPA not to use this market approach, because it will quickly result in the CPA competing head-to-head with private sector project developers. That market approach may pay short-term dividends by generating a few quick projects, but it will be harmful in the medium and long terms. Private sector companies will quickly learn that they cannot compete with the CPA, because of the CPA's inherent advantages in project financing and contracting, and so will shift their resources out of California. The potential leveraging effect of the CPA on the private market will be compromised. New York is currently going through a painful period of re-assessing the role of NYPA as a project developer, because of precisely these types of effects on the private sector.

Conclusion

NAESCO compliments the CPA on developing an ambitious plan for a full set of supply and demand energy resources in California. As an association of companies that have delivered these resources in California for the past twenty years, NAESCO would welcome the opportunity to work with the CPA to make its programs as effective and efficient as possible for all of the people of California.

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